

## Message Text

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TO SECSTATE WASHDC 3363

INFO AMEMBASSY BONN

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E. O. 11652: N/A

TAGS: ECON, ELAB, GW

SUBJ: DISMISSALS AT VW -- THE RUMOR MILL GRINDS

1. SUMMARY: THE PRESS HAS BEEN REPORTING RUMORS TO THE EFFECT THAT THE MANAGEMENT OF VOLKSWAGEN IS WIDELY EXPECTED TO ANNOUNCE, IN THE NEAR FUTURE, THE LARGEST MASS DISMISSAL IN GERMANY'S POST-WAR HISTORY. WE BELIEVE THIS EXPECTATION TO BE PESSIMISTIC. CUTS WILL BE MADE, BUT THEY ARE LIKELY TO BE CONDITIONED AS MUCH BY POLITICAL AS ECONOMIC REQUIREMENTS. END SUMMARY.

2. HARD TIMES IN THE WORLD AUTO INDUSTRY AND A NEW BROOM AT VOLKSWAGEN HAVE COMBINED TO MAKE HEADLINES IN THE GERMAN PRESS. RECENT STORY LEADS IN DIE WELT, FOR EXAMPLE, HAVE BEEN QUOTE VW--PRAESIDIUM CONFERS TODAY ON AT LEAST 15,000 DISMISSALS END QUOTE, QUOTE THE VW COMBINE MAKES LAST ARRANGEMENTS FOR A NEW PHASE OF THE LARGEST MASS DISMISSAL IN GERMAN POST-WAR HISTORY END QUOTE AND QUOTE DISCUSSIONS ON THE IMPENDING DISMISSAL OF ABOUT 20,000 FROM 105,000 VW EMPLOYEES GET TOUGHER END QUOTE. ONE HANDELSBLATT STORY RETURNED TO THE U.S. INVESTMENT THEME, BUT DECIDED THE MONEY COULD BE BETTER SPENT IN THE FEDERAL REPUBLIC. RADIO AND TV REPORTING HAS TENDED TO BE EVEN LESS RESTRAINED, PARTICULARLY WHEN NEWS PROGRAMS TURNED TO LOCAL POLITICIANS  
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FOR COMMENT. FOR EXAMPLE, DR. HANS JAHN, CHAIRMAN OF THE

CDU BRAUNSCHWEIG DISTRICT CHAPTER, SAID KNOWLEDGEABLE (BUT UNNAMED) SOURCES PREDICT A LAYOFF OF SOME 30,000 WORKERS.

3. OUR VIEW IS THAT THE SITUATION IS SERIOUS BUT NOT CATASTROPHIC. VOLKSWAGEN, IN FACT, FACES EXCESS CAPACITY, A RELATIVELY HIGH-COST LABOR FORCE, INCREASED COMPETITION FROM MANUFACTURERS IN EUROPE, JAPAN AND THE U.S. AND, FOR EXPORTS, A DISADVANTAGEOUS EXCHANGE RATE. IN ADDITION, VW, LIKE ITS COMPETITORS THROUGHOUT THE WORLD, FACES MANY UNCERTAINTIES ON THE SHAPE AND FUTURE OF THE AUTOMOBILE BUSINESS.

4. THE IMMEDIATE HARD FACT FOR VW IS EXCESS CAPACITY. IN SPITE OF INCREASED SALES OF THE POST-BEATLE LINE HERE IN GERMANY AND RECENT SUCCESS WITH EXPORTS TO THE U.S., THE SALAD DAYS FOR VW ARE GONE. VW EXPECTS NO RETURN TO THOSE DAYS AND THE MAIN TASK FACING TONI SCHMUKER, VW'S NEW MANAGER, IS TRIMMING AND FITTING THE COMPANY TO NEW REALITIES.

5. PRESS ESTIMATES OF PROBABLE LAYOFFS AT VW RANGE FROM TEN TO THIRTY THOUSAND. A SOURCE WITHIN THE COMPANY TOLD US THIS WEEK THAT A REDUCTION OF SOME 10,000 WILL PROBABLY BE REQUIRED. OUR SOURCE SCOFFED AT WHAT HE CALLED "POLITICALLY INSPIRED" FIGURES OF 25-30,000.

6. THE REAL QUESTION IS NOT WHETHER A REDUCTION IN FORCE WILL TAKE PLACE, BUT RATHER WHEN AND HOW. IF THE LARGE NUMBERS, E.G., 20-30,000 REDUNDANT WORKERS, ARE CORRECT, PLANT CLOSING COULD CERTAINLY BE EXPECTED. IN THAT CASE, MINOR WORK STOPPAGES, LIKE THE REPORTED TWO HOUR DEMONSTRATION IN NECKARSULM, WOULD BECOME BOTH MORE WIDESPREAD AND MORE SERIOUS. IF, AS WE SUSPECT, THE MORE CONSERVATIVE ESTIMATES ARE ACCURATE, OTHER, MORE POLITICALLY ACCEPTABLE MEASURES BECOME POSSIBLE. WE UNDERSTAND THAT LABOR FORCE TURNOVER FOR VW IS SOMETHING LIKE 10-15,000 EACH YEAR. FURTHER VW STRENGTHS AND WEAKNESSES ARE NOT SPREAD EVENLY ACROSS ITS ENTIRE RANGE OF ACTIVITIES. MANY VW PROBLEMS MIGHT BE SOLVED, WITHOUT THE ECONOMIC AND POLITICAL COSTS INHERENT IN MASS FIRINGS, BY SIMPLY NOT REPLACING RETIRED OR RESIGNING WORKERS, BY INTRA-PLANT TRANSFERS AND BY OFFERING A CHOICE

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OF INTER-PLANT PLACEMENT OR RESIGNATION WHERE NORMAL ATTRITION IS INSUFFICIENT. SUCH A PROCESS, SPREAD OVER SEVERAL MONTHS, WOULD ALLOW VW TO RESPOND BOTH TO ECONOMIC NECESSITY AND TO ITS POLITICALLY ORIENTED GOVERNMENT SHAREHOLDERS IN BONN AND LOWER SAXONY. THE VW BOARD IS TO MAKE A DECISION AND STATEMENT ON APRIL 14. ON THAT DATE SPECULATIVE RUMORS WILL PRESUMABLY END AND SPECULATIVE ANALYSIS WILL BEGIN.BROGAN

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